

BROOKS AUTOMATION INC

Form 10-Q

February 04, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended: December 31, 2010**

**OR**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-25434**

**BROOKS AUTOMATION, INC.**

(Exact name of registrant as specified in its charter)

Delaware

04-3040660

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

15 Elizabeth Drive  
Chelmsford, Massachusetts  
(Address of principal executive offices)

01824  
(Zip Code)

Registrant's telephone number, including area code: (978) 262-2400

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting  
(Do not check if a smaller reporting company) company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date, January 28, 2011: Common stock, \$0.01 par value 65,415,090 shares

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements**

BROOKS AUTOMATION, INC.  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

(In thousands, except share and per share data)

	<b>December 31, 2010</b>	<b>September 30, 2010</b>
Assets		
Current assets		
Cash and cash equivalents	\$ 62,312	\$ 59,823
Marketable securities	50,662	49,011
Accounts receivable, net	87,613	92,273
Inventories, net	127,143	115,787
Prepaid expenses and other current assets	8,416	10,437
Total current assets	336,146	327,331
Property, plant and equipment, net	61,985	63,669
Long-term marketable securities	44,953	33,593
Goodwill	48,138	48,138
Intangible assets, net	10,194	11,123
Equity investment in joint ventures	32,519	31,746
Other assets	2,640	2,624
Total assets	\$ 536,575	\$ 518,224
Liabilities and equity		
Current liabilities		
Accounts payable	\$ 62,323	\$ 65,734
Deferred revenue	4,024	4,365
Accrued warranty and retrofit costs	7,882	8,195
Accrued compensation and benefits	11,804	13,677
Accrued restructuring costs	2,525	3,509
Accrued income taxes payable	1,104	1,040
Accrued expenses and other current liabilities	12,032	11,635
Total current liabilities	101,694	108,155
Income taxes payable	12,590	12,446
Long-term pension liability	5,610	5,466
Other long-term liabilities	2,812	2,805
Total liabilities	122,706	128,872
Contingencies (Note 15)		
Equity		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding		

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Common stock, \$0.01 par value, 125,000,000 shares authorized, 78,898,626 shares issued and 65,436,757 shares outstanding at December 31, 2010, 78,869,331 shares issued and 65,407,462 shares outstanding at September 30, 2010	789	789
Additional paid-in capital	1,803,390	1,803,121
Accumulated other comprehensive income	20,272	19,510
Treasury stock at cost, 13,461,869 shares at December 31, 2010 and September 30, 2010	(200,956)	(200,956)
Accumulated deficit	(1,210,163)	(1,233,649)
Total Brooks Automation, Inc. stockholders' equity	413,332	388,815
Noncontrolling interest in subsidiaries	537	537
Total equity	413,869	389,352
Total liabilities and equity	\$ 536,575	\$ 518,224

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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BROOKS AUTOMATION, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)  
(In thousands, except per share data)

	<b>Three months ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenues		
Product	\$ 161,424	\$ 91,521
Services	16,943	14,676
Total revenues	178,367	106,197
Cost of revenues		
Product	109,203	67,245
Services	11,845	12,706
Total cost of revenues	121,048	79,951
Gross profit	57,319	26,246
Operating expenses		
Research and development	8,898	7,541
Selling, general and administrative	24,478	18,979
Restructuring charges	214	1,522
Total operating expenses	33,590	28,042
Operating income (loss)	23,729	(1,796)
Interest income	275	328
Interest expense	1	16
Loss on investment		191
Other (income) expense, net	(161)	197
Income (loss) before income taxes and equity in earnings (losses) of joint ventures	24,164	(1,872)
Income tax provision	988	635
Income (loss) before equity in earnings (losses) of joint ventures	23,176	(2,507)
Equity in earnings (losses) of joint ventures	310	(370)
Net income (loss)	\$ 23,486	\$ (2,877)
Add: Net loss attributable to noncontrolling interests		82
Net income (loss) attributable to Brooks Automation, Inc.	\$ 23,486	\$ (2,795)
Basic net income (loss) per share attributable to Brooks Automation, Inc. common stockholders	\$ 0.37	\$ (0.04)

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Diluted net income (loss) per share attributable to Brooks Automation, Inc. common stockholders	\$ 0.36	\$ (0.04)
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Shares used in computing earnings (loss) per share

Basic	64,263	63,394
Diluted	64,475	63,394

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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BROOKS AUTOMATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(In thousands)

	<b>Three months ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities		
Net income (loss)	\$ 23,486	\$ (2,877)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,274	4,794
Stock-based compensation	1,209	1,517
Amortization of premium on marketable securities	410	136
Undistributed (earnings) losses of joint ventures	(310)	370
Gain on disposal of long-lived assets	(13)	
Loss on investment		191
Changes in operating assets and liabilities, net of acquisitions and disposals:		
Accounts receivable	4,949	(14,759)
Inventories	(11,289)	(5,163)
Prepaid expenses and other current assets	2,117	(834)
Accounts payable	(3,424)	19,902
Deferred revenue	(330)	1,199
Accrued warranty and retrofit costs	(314)	32
Accrued compensation and benefits	(2,810)	(2,834)
Accrued restructuring costs	(985)	(605)
Accrued expenses and other	713	413
Net cash provided by operating activities	17,683	1,482
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,638)	(461)
Purchases of marketable securities	(38,704)	(43,983)
Sale/maturity of marketable securities	25,225	29,853
Proceeds from the sale of investment		240
Net cash used in investing activities	(15,117)	(14,351)
Effects of exchange rate changes on cash and cash equivalents	(77)	48
Net increase (decrease) in cash and cash equivalents	2,489	(12,821)
Cash and cash equivalents, beginning of period	59,823	59,985
Cash and cash equivalents, end of period	\$ 62,312	\$ 47,164

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****1. Basis of Presentation**

The unaudited condensed consolidated financial statements of Brooks Automation, Inc. and its subsidiaries ( Brooks or the Company ) included herein have been prepared in accordance with generally accepted accounting principles, or GAAP. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected.

Certain information and footnote disclosures normally included in the Company s annual consolidated financial statements have been condensed or omitted and, accordingly, the accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission (the SEC ) for the fiscal year ended September 30, 2010.

**Recently Enacted Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities ( VIEs ), which requires a qualitative approach to identifying a controlling financial interest in a VIE, and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. On October 1, 2010 the Company adopted this standard, which had no impact on its financial position or results of operations.

In December 2010, the FASB issued an amendment to the accounting requirements of goodwill, which requires a qualitative approach to considering impairment for a reporting unit with zero or negative carrying value. This guidance is effective for fiscal years beginning after December 15, 2010. The Company does not believe that the adoption of this standard will have a material impact on its financial position or results of operations.

In December 2010, the FASB issued an amendment to the accounting requirements of business combinations, which establishes accounting and reporting standards for pro forma revenue and earnings of the combined entity for the current and comparable reporting periods. This guidance is effective for fiscal years beginning after December 15, 2010. The Company does not believe that the adoption of this standard will have a material impact on its financial position or results of operations.

**2. Stock-Based Compensation**

The following table reflects stock-based compensation expense recorded during the three months ended December 31, 2010 and 2009 (in thousands):

	<b>Three months ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Stock options	\$	\$ 43
Restricted stock	1,092	1,368
Employee stock purchase plan	117	106
	\$ 1,209	\$ 1,517

The Company uses the Black-Scholes valuation model for estimating the fair value of the stock options granted. The fair value per share of restricted stock is equal to the number of shares granted and the excess of the quoted price of the Company s common stock over the exercise price of the restricted stock on the date of grant. In addition, for stock-based awards where vesting is dependent upon achieving certain operating performance goals, the Company estimates the likelihood of achieving the performance goals. Actual results, and future changes in

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estimates, may differ substantially from the Company's current estimates. Restricted stock with market-based vesting criteria is valued using a lattice model.

During the year ended September 30, 2010, the Company granted 253,000 shares of restricted stock to members of senior management of which 126,500 shares vest over the service period and the remaining 126,500 shares vest upon the achievement of certain financial performance goals which will be measured at the end of fiscal year 2012. Total compensation on these awards is a maximum of \$2.2 million. Awards subject to service criteria are being recorded to expense ratably over the vesting period. Awards subject to performance criteria are expensed over the related service period when attainment of the performance condition is considered probable. The total amount of compensation recorded will depend on the Company's achievement of performance targets. Changes to the projected attainment of performance targets during the vesting period may result in an adjustment to the amount of cumulative compensation recorded as of the date the estimate is revised.

*Stock Option Activity*

The following table summarizes stock option activity for the three months ended December 31, 2010:

	<b>Number of Options</b>	<b>Weighted- Average Remaining Contractual Term</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value (In Thousands)</b>
Outstanding at September 30, 2010	764,621		\$ 18.94	
Forfeited/expired	(347,110)		\$ 23.56	
Outstanding at December 31, 2010	417,511	1.5 years	\$ 15.10	\$ 41
Vested and unvested expected to vest at December 31, 2010	417,511	1.5 years	\$ 15.10	\$ 41
Options exercisable at December 31, 2010	417,511	1.5 years	\$ 15.10	\$ 41

The aggregate intrinsic value in the table above represents the total intrinsic value, based on the Company's closing stock price of \$9.07 as of December 31, 2010, which would have been received by the option holders had all option holders exercised their options as of that date.

No stock options were granted during the three months ended December 31, 2010 and 2009. There were no stock option exercises in the three months ended December 31, 2010 and 2009. The total cash received from employees as a result of employee stock option exercises during the three months ended December 31, 2010 and 2009 was \$0.

As of December 31, 2010 there was no future compensation cost related to stock options as all outstanding stock options have vested.

*Restricted Stock Activity*

A summary of the status of the Company's restricted stock as of December 31, 2010 and changes during the three months ended December 31, 2010 is as follows:

	<b>Three months ended December 31, 2010</b>	
	<b>Shares</b>	<b>Weighted Average Grant-Date Fair Value</b>
Outstanding at September 30, 2010	1,313,203	\$ 9.40
Awards granted	155,000	7.91
Awards vested	(300,248)	14.40
Awards canceled	(8,710)	7.30

Outstanding at December 31, 2010	7	1,159,245	\$	8.39
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In November 2009, the Company's Board of Directors ( Board ) approved the payment of performance based variable compensation awards to certain executive management employees related to fiscal year 2009 performance. The Board chose to pay these awards in fully vested shares of the Company's common stock rather than cash. The Company granted 178,346 shares based on the closing share price as of November 13, 2009. The \$1.4 million of compensation expense related to these awards was recorded during fiscal year 2009 as selling, general and administrative expense.

The fair value of restricted stock awards vested during the three months ended December 31, 2010 was \$4.3 million. The fair value of restricted stock awards vested during the three months ended December 31, 2009 was \$1.8 million, which includes the \$1.4 million of compensation expense related to the fiscal year 2009 variable compensation award.

As of December 31, 2010, the unrecognized compensation cost related to nonvested restricted stock is \$6.6 million and will be recognized over an estimated weighted average amortization period of 1.9 years.

**Employee Stock Purchase Plan**

There were no shares purchased under the employee stock purchase plan during the three months ended December 31, 2010 and 2009.

**3. Goodwill**

The components of the Company's goodwill by business segment at December 31, 2010 are as follows (in thousands):

	<b>Critical Solutions Group</b>	<b>Systems Solutions Group</b>	<b>Global Customer Operations</b>	<b>Other</b>	<b>Total</b>
Gross goodwill	\$ 353,253	\$ 151,184	\$ 151,238	\$ 7,421	\$ 663,096
Less: aggregate impairment charges recorded	(305,115)	(151,184)	(151,238)	(7,421)	(614,958)
	\$ 48,138	\$	\$	\$	\$ 48,138

The Company did not have any adjustments to goodwill during the three months ended December 31, 2010. Components of the Company's identifiable intangible assets are as follows (in thousands):

	<b>December 31, 2010</b>			<b>September 30, 2010</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Patents	\$ 7,808	\$ 6,912	\$ 896	\$ 7,808	\$ 6,886	\$ 922
Completed technology	43,502	37,564	5,938	43,502	37,108	6,394
Trademarks and trade names	3,779	3,460	319	3,779	3,379	400
Customer relationships	18,860	15,819	3,041	18,860	15,453	3,407
	\$ 73,949	\$ 63,755	\$ 10,194	\$ 73,949	\$ 62,826	\$ 11,123

**4. Income Taxes**

The Company recorded an income tax provision of \$1.0 million for the three months ended December 31, 2010. This provision substantially consists of foreign income taxes arising from the Company's international sales mix, certain state income taxes and interest related to unrecognized tax benefits.

The Company recorded an income tax provision of \$0.6 million for the three months ended December 31, 2009. This provision substantially consists of foreign income taxes arising from the Company's international sales mix,

certain state income taxes, U.S. Federal alternative minimum taxes and interest related to unrecognized tax benefits.

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The Company continued to provide a full valuation allowance for its net deferred tax assets at December 31, 2010, as Brooks believes it is more likely than not that the future tax benefits from accumulated net operating losses and deferred taxes will not be realized.

The Company is subject to U.S. federal income tax and various state, local and international income taxes in various jurisdictions. The amount of income taxes paid is subject to the Company's interpretation of applicable tax laws in the jurisdictions in which it files. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company has income tax audits in progress in various jurisdictions in which it operates. In the Company's U.S. and international jurisdictions, the years that may be examined vary, with the earliest tax year being 2004. Based on the outcome of these examinations, or the expiration of statutes of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in the Company's statement of financial position. The Company currently anticipates that approximately \$1.0 million will be realized in the fourth quarter of fiscal year 2011 as a result of the expiration of certain non-U.S. statutes of limitations, all of which will impact the Company's fiscal year 2011 effective tax rate.

**5. Earnings (Loss) per Share**

Below is a reconciliation of weighted average common shares outstanding for purposes of calculating basic and diluted earnings (loss) per share (in thousands):

	Three months ended December 31,	
	2010	2009
Weighted average common shares outstanding used in computing basic earnings (loss) per share	64,263	63,394
Dilutive common stock options and restricted stock awards	212	
Weighted average common shares outstanding for purposes of computing diluted earnings (loss) per share	64,475	63,394

Approximately 480,000 and 1,161,000 options to purchase common stock and 223,000 and 926,000 shares of restricted stock were excluded from the computation of diluted earnings (loss) per share attributable to common stockholders for the three months ended December 31, 2010 and 2009, respectively, as their effect would be anti-dilutive.

**6. Comprehensive Income (Loss)**

The calculation of the Company's comprehensive income (loss) for the three months ended December 31, 2010 and 2009 is as follows (in thousands):

	<b>Three months ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income (loss)	\$ 23,486	\$ (2,877)
Change in cumulative translation adjustment	953	701
Unrealized loss on marketable securities	(191)	(238)
Comprehensive income (loss)	24,248	(2,414)
Add: Comprehensive loss attributable to noncontrolling interests		82
Comprehensive income (loss) attributable to Brooks Automation, Inc.	\$ 24,248	\$ (2,332)

**7. Segment Information**

The Company reports financial results in three segments: Critical Solutions Group; Systems Solutions Group; and Global Customer Operations. A description of segments is included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.



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The Company evaluates performance and allocates resources based on revenues, operating income (loss) and returns on invested assets. Operating income (loss) for each segment includes selling, general and administrative expenses directly attributable to the segment. Other unallocated corporate expenses (primarily certain legal costs associated with the Company's past equity incentive-related practices and costs to indemnify a former executive in connection with these matters), amortization of acquired intangible assets (excluding completed technology) and restructuring are excluded from the segments' operating income (loss). The Company's non-allocable overhead costs, which include various general and administrative expenses, are allocated among the segments based upon various cost drivers associated with the respective administrative function, including segment revenues, segment headcount, or an analysis of the segments that benefit from a specific administrative function. Segment assets exclude investments in joint ventures, marketable securities and cash equivalents.

Financial information for the Company's business segments is as follows (in thousands):

	<b>Critical Solutions Group</b>	<b>Systems Solutions Group</b>	<b>Global Customer Operations</b>	<b>Total</b>
Three months ended December 31, 2010				
Revenues				
Product	\$ 74,420	\$ 86,203	\$ 801	\$ 161,424
Services			16,943	16,943
	\$ 74,420	\$ 86,203	\$ 17,744	\$ 178,367
Gross profit	\$ 31,024	\$ 20,624	\$ 5,671	\$ 57,319
Segment operating income	\$ 13,460	\$ 9,868	\$ 1,296	\$ 24,624
Three months ended December 31, 2009				
Revenues				
Product	\$ 43,186	\$ 47,099	\$ 1,236	\$ 91,521
Services			14,676	14,676
	\$ 43,186	\$ 47,099	\$ 15,912	\$ 106,197